

Quarterly Investment Update September 2023



Market overview

Early in the quarter, broader global and local equities were generally resilient although they retreated in September amid renewed concerns that interest rates would remain ‘higher for longer’ and global economic growth would slow. Global and Australian equities ended the September quarter in negative territory, down -0.4% (in A\$ terms) and -0.8% respectively.

Global infrastructure stocks were also dragged lower, down -5.1% (in A\$ terms) with elevated interest rates weighing on the asset class. All global listed infrastructure subsectors declined, with the exception of Marine Ports which gained +2.7%.

Electric (-8.8%) and Water Utilities (-9.0%) were the hardest hit subsectors, with the rapid tightening of monetary policy weighing on all indebted, long-duration investments including infrastructure assets.

As the monetary cycle matures and interest rates are cut, it follows that global infrastructure stocks will revert to average long-term returns – albeit the timing and pace of rate cuts is unknown.

Utilities are able to carry considerable debt because they generate reliable income due to the essential and largely demand-inelastic nature of the services they provide. As a result, these assets are very sensitive to interest rate rises. Following the steepest interest rate increases in recent history, the recent weak performance of these stocks is not unexpected. Utilities are also among the largest companies in the global listed infrastructure universe, so their recent poor performance has been a significant drag on the returns of the overall asset class.

As the monetary cycle matures and interest rates are potentially cut in the future, it follows that returns from global infrastructure stocks will revert to average long-term returns – albeit the timing and pace of interest rate cuts is currently unknown.

Portfolio performance

In the September quarter, Argo Infrastructure’s portfolio declined -6.2% (in A\$ terms) modestly underperforming the benchmark index return.

Stock selection among the Gas Distribution and Midstream Energy contributed positively to performance. This included a position in US-based Cheniere Energy – the fourth largest portfolio holding. The company has been generating attractive cashflow and may benefit from higher natural gas prices heading into the northern hemisphere winter. However, these gains were outweighed by holdings elsewhere in the portfolio, including in SBA Communications – its shares fell sharply along with tower companies in general which were hurt by rising interest rates, much like utilities.

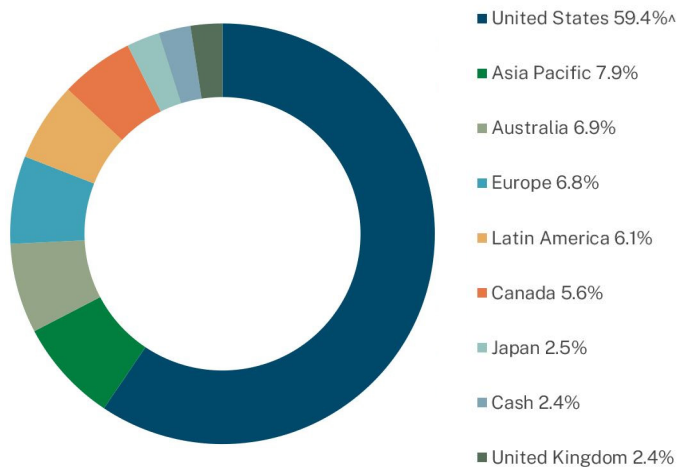
	3 months	1 year	3 years (p.a.)	Since inception ⁴ (p.a.)
Portfolio ¹	-6.2%	0.0%	+7.1%	+7.0%
Benchmark ²	-5.1%	+0.1%	+6.7%	+6.5%
S&P/ASX 200 ³	-0.8%	+13.5%	+11.0%	+7.2%

¹ Before fees ² FTSE Global Core Infrastructure 50/50 Index (in A\$) ³ Accumulation Index ⁴ July 2015

Total Returns value of \$10,000 invested at inception

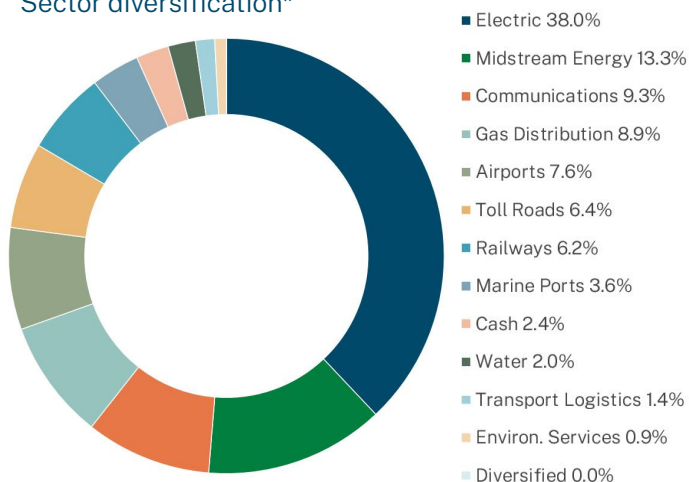


Portfolio Geographic diversification*



* As a percentage of investment portfolio.

Sector diversification*



^ Many of the largest infrastructure companies are listed in the US, although their operations and earnings are often global.

Top 10 Holdings at 30 September 2023

Security name	Country of listing	Subsector	Portfolio (%)	Index (%)
NextEra Energy	US	Electric	5.2	4.5
American Tower	US	Communications	4.7	3.1
TC Energy	CAN	Midstream Energy	3.9	1.4
Cheniere Energy	US	Midstream Energy	3.7	1.6
Transurban	AUS	Toll Roads	3.3	4.4
SBA Communications	US	Communications	3.1	1.0
Consolidated Edison	US	Electric	3.1	1.3
PPL	US	Electric	3.0	0.7
Exelon	US	Electric	3.0	1.6
Grupo Aeroportuario De Sur-B	MEX	Airports	2.9	0.9
			35.9	20.5



Annual General Meeting

Last week in Adelaide, we held Argo Infrastructure's eighth Annual General Meeting. Thank you to all those who attended. The team enjoyed the opportunity to again meet with some of our shareholders face-to-face.

If you weren't able to join us, various materials from the AGM are available via our website (please see details below).

AGM materials

See various AGM materials, including slides, recordings of the speeches and a video by Ben Morton from our Portfolio Manager, Cohen & Steers, on our website at the following link:

argoinfrastructure.com.au/agm

Q&A with our Managing Director

Following the AGM, Argo Infrastructure's Managing Director, Jason Beddow, discussed the recent performance of global listed infrastructure and trends for the asset class in a video interview with our Communications Manager, Meredith Hemsley.

To watch the interview, click on the image below, visit our website or watch [here](#).



Outlook

In anticipation of slower global economic growth in the near-term, Argo Infrastructure's Portfolio Manager, Cohen & Steers, has become somewhat more defensive in its portfolio positioning. To this end, exposure to the economically-sensitive Railways subsector has recently been pared back with capital redeployed to purchase Utilities.

In the current investing environment, Cohen & Steers continues to preference higher quality businesses that they believe can perform well despite below-trend growth.

With credit conditions expected to remain challenging, Cohen & Steers is also monitoring the repercussions of higher financing costs (including their potential impact on earnings and cash flows) for companies across the asset class. They are focussed on identifying infrastructure businesses that have strong balance sheets, with limited near-term debt maturities and manageable refinancing schedules.

Persistent inflation and 'higher for longer' interest rates may be an ongoing headwind for certain infrastructure subsectors, however, most infrastructure businesses can pass on rising costs to consumers and, as a result, have tended to perform well during periods of above-average inflation.

Taking a longer-term view, the outlook for the asset class is supported by a number of structural changes to the global economy, such as the rapid digitisation of society and the transition to net zero emissions, that require significant investment in major infrastructure projects across the world. In addition, the urbanisation of emerging economies will necessitate spending on a plethora of infrastructure assets, from water utilities to airports, over many decades.

About us

At a glance

ASX code	ALI
Listed	2015
Manager	Argo Investments
Portfolio Manager	Cohen & Steers
Market cap.	\$367m
Shareholders	9,300
Hedging	Unhedged
Management fee	1.2%
Performance fee	Nil
Dividend yield ^a	4.1%

^a Historical yield of 5.9% (including franking) based on dividends paid over the last 12 months.

Company overview

Provides exposure to a diverse portfolio of global infrastructure stocks. The portfolio is actively managed by Cohen & Steers (NYSE: CNS), a leading specialist global real assets fund manager managing funds of over A\$100 billion for institutional clients and sovereign wealth funds from offices worldwide.

How to invest

We are listed on the Australian Securities Exchange (ASX) under the ASX code 'ALI'. To become a shareholder, buy shares through your stockbroker, online broker, financial adviser or platform.

Share registry enquiries

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Shareholder benefits



Global diversification

Exposure across various geographies and both emerging and developed economies



Specialist global fund manager

Access to a world-leading, specialist infrastructure fund manager



Access infrastructure opportunities

New opportunities offshore through government privatisations



Proven investment approach

Experienced investment team with a long and successful track record



Enhance risk-adjusted returns

Less volatile than broader equities providing some relative downside protection



Simple global investing

Exposure to a large and complex asset class through one simple ASX trade

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